

Credit for Taxes Paid to Another State or Country

309

General Instructions

For assistance, please contact one of the Taxpayer Information and Assistance help numbers:

Phoenix (602) 255-3381
 Tucson (520) 628-6421
 Other Arizona areas 1-800-352-4090
 Form orders (602) 542-4260
 Forms by Fax..... (602) 542-3756
 Recorded Tax Information
 Phoenix (602) 542-1991
 Other Arizona areas 1-800-845-8192
 Hearing impaired TDD user
 Phoenix (602) 542-4021
 Other Arizona areas 1-800-397-0256
 Internet.....<http://www.state.az.us/revenue>

Purpose of Form

Use Form 309 to figure your credit for taxes paid to Arizona and another state or country on the same income.

If claiming a credit for more than one state or country, make a separate computation for each state or country.

For more information, see the department's income tax procedure for computing a credit for taxes paid to another state or country. To get a copy of this procedure, call one of the help numbers listed on this page.

NOTE: You must notify the department immediately if the other state or country credits or refunds taxes for which you have received an Arizona credit. In this case, you must file an amended return.

Complete this form only if you meet the following.

1. You are filing a 1996 Arizona income tax return.

2. You are paying a **net** income tax to another qualified state or foreign country for 1996. For this credit, a net income tax is a tax which grants deductions or exemptions from gross income. A system of taxation which assesses taxes on gross income, gross receipts or gross dividends does not qualify for the credit. Payroll taxes withheld from income do not constitute a net income tax.

Important: *Withholding is not a net income tax. Having tax withheld from your pay by Arizona and another state does not by itself qualify you for this credit. You must file a net income tax return to the other state or country.*

You may **not claim this credit for the following.**

1. Taxes withheld at the source on dividend or interest income from foreign investments.
2. Income taxes paid to any city or county.
3. Interest or penalties paid to another state or country.

Application of Credit

Claim this credit only if the income was subject to tax in both Arizona and the other state or country in the same tax year.

You cannot apply this credit against interest or penalties payable to Arizona.

NOTE: You may use this credit only in the year incurred. If your credit is more than your 1996 Arizona income tax liability, you cannot carry the credit forward to the next year. You also cannot carry the credit back to a prior year.

Arizona Resident

Arizona residents are allowed a credit against Arizona income taxes for net income taxes imposed by and paid to

another state or country if the following apply.

1. The income taxed in Arizona is derived from sources within another state or country. This income is subject to a net income tax in the other state or country regardless of your residence.
2. The other state or country does not allow Arizona residents a credit for taxes imposed on income subject to tax in both Arizona and the other state or country.

As an Arizona resident, returns filed with the following states qualify for the credit:

Alabama, Arkansas, Colorado, Connecticut, Delaware, Georgia, Hawaii, Idaho, Illinois, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Pennsylvania, Rhode Island, South Carolina, Utah, Vermont, West Virginia and Wisconsin.

NOTE: This list is subject to change at any time.

Important: As an Arizona resident, returns filed with the following states **DO NOT** qualify for the credit:

Alaska, California, District of Columbia, Florida, Indiana, Nevada, New Hampshire, Oregon, South Dakota, Tennessee, Texas, Virginia, Washington and Wyoming.

Nonresident

A credit against Arizona income taxes is allowed for Arizona nonresidents who are not allowed a credit by their state or country of residence for taxes paid to Arizona if either:

1. The other state or country does not tax Arizona residents on income derived from sources within the other state or country.

2. The other state or country allows Arizona residents credit for taxes paid on income subject to tax by the other state or country and Arizona.

Arizona nonresidents who file resident returns with the following states qualify for the credit.

California, District of Columbia, Indiana, Oregon and Virginia.

***NOTE:** This list is subject to change at any time.*

Part-Year Residents

For that part of the year you were a resident of Arizona, follow the instructions for residents.

For that part of the year you were an Arizona nonresident, follow the instructions for nonresidents.

Required Attachments

If you are claiming a credit for taxes paid to another state, you must attach a copy of the tax return filed to the other state.

If you are claiming a credit for taxes paid to a foreign country, attach the following information to your Arizona income tax return.

1. A copy of the tax return you filed to the foreign country.
2. A copy of the foreign law which imposes the tax.
3. In cases where English is not the official language of the foreign country, an English translation of all required documentation.
4. Where the tax is paid in a foreign currency, a statement substantiating the conversion rate on the date of payment. Identify your authority for your conversion rate.

Line-by-Line Instructions

Fill in your name(s) as shown on Arizona Form 140, Form 140PY, Form 140NR, or Form 140X. Enter your social security number and your spouse's social security number if applicable.

All returns, statements and other documents filed with the Department of Revenue require a taxpayer identification number (TIN). The TIN is either a correct social security number or, for a business, the federal identification number. Paid tax preparers must also include their TIN on forms where requested. Taxpayers and paid preparers failing to include the proper TIN may be subject to a penalty. Please check the return to be sure that all required identification numbers are accurate and written clearly. Missing, incorrect, or unclear identification numbers may cause delays in processing the returns.

Part I - Computation of Income Subject to tax by Both Arizona and the Other State or Country During 1996

In order for income to be taxed by both Arizona and another state, two elements must exist. For an Arizona resident, the two elements are:

- (1) the same income must be taxed by both states; and
- (2) the income must have its source within the other state.

For a nonresident, the two elements are:

- (1) the same income must be taxed by both states; and
- (2) the income must have its source within Arizona.

Lines 1 Through 6

Provide a breakdown of your income which is subject to tax in both Arizona and the other state or country. Complete lines 1 through 6 separately for each item listed in columns (a) through (c). If you have more than three items of income from the other state or country for which you are claiming the credit, complete additional schedules.

Line 1 -

Identify the income item from which the income subject to tax in both Arizona and the other state is derived. If you have more than one income item, complete column(s) (b) and (c) as

necessary. Examples of such income are business income, partnership income, wages, etc. Enter an item in column (a) only if your Arizona adjusted gross income and the adjusted gross income of the return filed with the other state or country includes the income from that item.

Line 2 -

Enter the amount of income from the item listed on line 1 reportable to both Arizona and the other state or country. This is the amount of income derived from that item which you must include in the income reported to both Arizona and the other state or country.

Line 3 -

Enter that portion of the income entered on line 2 which is subject to tax by Arizona. This is that portion of the income included in your Arizona adjusted gross income adjusted by any additions or subtractions related to that income required under Arizona law.

Line 4 -

Enter that portion of the income entered on line 2 which is subject to tax by the other state or country. This is that portion of the income included in the other state's or country's adjusted gross income adjusted by any additions or subtractions related to that income required under the other state's or country's law.

Line 5 -

Enter the lesser of the amount entered on line 3 or line 4. This is the amount of income from that item which is subject to tax by both Arizona and the other state or country.

Line 6 -

Add line 5, columns (a) through (c). This is the total income subject to tax in both Arizona and the other state or country. Enter the amount from Part I, line 6, on Part II, line 8 and also on Part II, line 13.

The following example illustrates how to complete lines 1 through 6 of Arizona Form 309.

Part II - Computation of Other State or Country Tax Credit

Line 7 -

Enter your Arizona tax liability less any credits. However, do not reduce your Arizona tax liability by the other state tax credit.

For 1996, your Arizona tax liability prior to tax credits is found on:

Form 140, line 27

Form 140PY, line 27

Form 140NR, line 27

Form 140X, Line 18

If you are taking other tax credits, you must reduce your Arizona tax by the amount of those other tax credits.

Line 9 -Entire income upon which Arizona tax is imposed

Enter your entire income upon which Arizona tax is imposed. This is the Arizona adjusted gross income excluding allowable exemptions for age 65 or over, blind, or dependents.

Use the appropriate worksheet below to figure your entire income upon which Arizona tax is imposed.

Worksheet for Arizona Residents

1. Enter the amount from Arizona Form 140, line 22. 1. _____
2. Enter the amounts from Arizona Form 140, lines 17, 18, and 19. 2. _____
3. Add the amount on lines 1 and 2. Enter the total here and on line 9 of Arizona Form 309. 3. _____

Worksheet for Arizona Nonresidents

1. Enter the amount from Arizona Form 140NR, line 22. 1. _____
2. Enter the amount from Arizona Form 140NR, Page 2, line D24. 2. _____

3. Add the amounts on lines 1 and 2. Enter the total here and on line 9 of Arizona Form 309. 3. _____

Worksheet for Arizona Part-Year Residents With No Arizona Source Income for the Period of the Year in Which You Were an Arizona Nonresident

1. Enter the amount from Arizona Form 140PY, line 22. 1. _____
2. Enter the amount from Arizona Form 140PY, Page 2, line D28. 2. _____
3. Add the amounts on lines 1 and 2. Enter the total here and on line 9 of Arizona Form 309. 3. _____

Part-Year Residents With Arizona Source Income for the Period of the Year in Which You Were an Arizona Nonresident.

If you have Arizona source income for the period of the year in which you were an Arizona nonresident, you must separately determine the amount of Arizona adjusted gross income for the period in which you were a resident and the amount of Arizona adjusted gross income for the period in which you were a nonresident. These figures are not separately stated on any particular line on your Arizona Form 140PY.

Line 12 -

Enter the amount of income tax paid to the other state or foreign country. Do not include federal income taxes or any taxes paid to a city or county. Also, do not include any amount paid to the other state or foreign country for penalty or interest.

Line 14 -Entire Income Upon Which Other State's or Country's Income Tax is Imposed

Enter the entire income upon which the other state's or country's income tax is imposed. This is the other state's or country's equivalent of Arizona adjusted gross income. Such income must include items of income and loss, but not

exemptions and itemized or standard deductions. Such income must also be adjusted by any additions or subtractions required under the other state's law which relate to the income from sources within the other state. This amount may not be shown on a specific line of the return filed with the other state.

NOTE FOR ARIZONA RESIDENTS

ONLY: Since the other state can only tax a nonresident on income which is sourced to that state, the entire income upon which the other state's income tax is imposed includes only income sourced to that other state under its income tax laws. Source income is generally income derived from property located within a state or from an activity carried on within a state when the income recipient is a nonresident.

NOTE: You may not be able to take the entire income upon which the other state's or country's tax is imposed from a specific line on the return filed to the other state or country. If you must determine this amount, attach a schedule.

The example following line 17 illustrates how an Arizona resident figures the entire income subject to tax in the other state or country.

If you have questions concerning what amount to enter on line 14 call one of the help numbers listed at the beginning of these instructions.

Line 17 -

Enter the lesser of line 11 or line 16. If this is the only state or country for which you are claiming a credit, also enter this amount on Arizona Form 301, line 7.

If you are claiming a credit for more than one state or country, make a separate computation for each. Enter the total from all Arizona Forms 309 on Arizona Form 301, line 7.

